UNCTAD in Asia: Issues in the 1990s

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Introduction

The decade of the 1980s has been referred to as the 'lost decade'. Growth opportunities in the world economy were frustrated as a result of various disorderly features of the trading, monetary and financial systems. Volatile exchange rates and capital markets, the erosion of multilateralism, growing protectionism, mounting debt burdens, inadequate resource transfers and growing imbalances are some of the manifestations of the maladies of the present world economy. Furthermore, the collapse of commodity prices, continued decline of the purchasing power of primary product exports and failure of a number of commodity agreements have aggravated the problems of the developing countries in particular.

While the initiatives taken by UNCTAD in the latter half of the 1970s and during the 1980s for strengthening the role of trade in the developing world are commendable, they have been subject to various types of impediments and bottlenecks. Patterns of comparative advantage have been distorted through non-tariff barriers, such as voluntary export restraints, sector-specific agreements, safeguard measures and quotas, to the detriment of the interests of the developing countries. If multilateralism in the trading system were to collapse completely, through the even greater use of various unilateral actions and bilateral arrangements, the developing countries would be especially endangered. The emergence of new technologies, whose origin and diffusion are virtually monopolised by the multinationals, seems to create vistas of exploitation of the 'have-nots' by the 'haves'.

There is, however, some prospect that the 1990s may be more favourable to development than the 1980s. The new round of trade negotiations; increasing awareness about the imperatives of South-South cooperation; the setting up of the common fund for commodities under the initiative of UNCTAD; increasing realisation of the need for coordination of macro-economic policies in the developed world', new initiatives for reducing the debt burden; the possibility that the Japanese surplus may be partly recycled for development, are some of the events which brighten the hopes of the developing world. However, the form that some of these developments might take will depend partly on the initiatives taken by the developing world itself. The role of organisations like UNCTAD in spearheading the cause of development in international negotiations will be especially significant.

While there are many common issues of concern to the developing world as a whole, it contains many varied countries or regions. This article attempts to make an inventory of such negotiating issues, with special reference to Asia. A brief profile of the diversities of the Asian region precedes an analysis of the policy options open to the countries of the region and the possible responses. The last section provides concluding observations.

Diversity in the Asian Region

Developing Asia — defined as a region consisting of the countries of West Asia, the newly industrialising countries (NICs), South East Asian and South Asian countries and China — is a highly diverse region [see Tables 1 and 2]. Per capita GDP ranges from $146 in Nepal to $6089 in Hong Kong (1986 figures). NICs and Singapore in the ASEAN group have per capita GDPs 10-20 times higher than other developing countries in the region. The share of industry in GDP is over 30 per cent in the NICs the ASEAN economies and in India, but much lower elsewhere. The degree of openness as measured by the share of total trade in GDP also reflects wide diversity. NICs also have high saving and investment rates, but in the other parts of the region these are generally quite low. The rate of structural transformation and technological upgrading is significantly more rapid in the NICs than elsewhere. The annual growth rate of domestic investment in the Republic of Korea was as high as 10 per cent during 1980-87 while even in a country like India, where the domestic saving rate is supposed to be high, the annual growth of domestic investment was only 3.7 per cent. Diversities also exist in regard to the structure of exports and degree of foreign investment. The share of manufactures in exports is more than 81 per cent for the NICs, while it is around 56 per cent for South Asia and about 20 per cent for other ASEAN economies.

The degree to which external factors influence their domestic economies also differs from country to country. Fluctuations in exchange rates, volatility in the capital market, high interest rates in the developed countries and protectionism in the developed world

Table 1

Select Macro Economic Indicators of Asian Countries, 1987

	Growth rate of GDP 1980-87	Per Capita GDP (US $) 1986	GDP Million US $	Industry GDP (%)	Openness (X+M)/ (2 x GDP) (%)	S/GDP (%)	I/GDP (%)	Average Annual Inflation Rate 1980-87
West Asia								
Syrian Arab Republic	0.3	1,744	23,990	19	8	10	19	11.0
Turkey	5.2	1,157	60,820	36	20	23	26	37.4
NICs								
Hong Kong	5.8	6,809	36,530	29	132	31	25	6.7
Korea, Republic of	8.6	2,342	121,310	43	36	38	29	5.0
Taiwan	12.4	3,745	97,208	44	34	37	22	...
ASEAN								
Indonesia	3.6	441	69,670	33	22	29	26	8.5
Malaysia	4.5	1,733	31,230	...	48	37	23	1.1
Philippines	-0.5	551	34,580	33	18	16	15	16.7
Singapore	5.4	6,773	19,900	38	153	40	39	1.3
Thailand	5.6	799	48,200	35	25	26	26	2.8
South Asia								
Bangladesh	3.8	153	17,600	13	10	2	11	11.1
India	4.6	296	220,830	30	7	22	24	7.7
Nepal	4.7	146	2,560	14	14	11	21	8.8
Pakistan	6.6	312	31,650	28	16	11	17	7.3
Sri Lanka	4.6	389	6,040	27	29	13	23	11.8
Socialist Economies								
China's People's Rep. of	10.4	257	293,380	49	14	38	25	4.2
Myanamar	...	217	...	...	...	...	...	...
South Pacific								
Papua New Guinea	3.0	704	3,030	26	39	17	22	4.4

Sources: World Bank, World Development Report 1989.
Republic of China, Statistical Yearbook 1988.

are the issues of common concern.

The level of external indebtness is also substantial (Table 2). The debt service ratio (the ratio of debt services to exports) in 1987 was 27.5 per cent for the Republic of Korea, 33.3 per cent for Indonesia, 25.2 per cent for the Philippines, and 21.6 per cent for India. It is alarming to note that in almost all the countries of the region, the debt service ratio has significantly increased in the 1980s, sometimes more than doubling in 1987 compared to the 1981 level. Debt is an important negotiating issue for almost all countries of the region.

The uneven distribution of foreign direct investment (FDI) has also contributed to the diversities in the region (Table 3). NICs and ASEAN economies receive more than 90 per cent of FDI in the ESCAP region. By contrast, the economies of South Asia, namely, India, Pakistan and Sri Lanka, are still very marginal recipients of FDI. It is also interesting to note that more than 70 per cent of the annual flow of total foreign direct investment from Japan is directed towards the NICs and the other ASEAN economies. In a way Japan can be regarded as the centre and the NICs and the other ASEAN economies as the peripheries. The sectoral distribution of FDI is uneven, with the share of services growing much faster than the others. In particular, FDI has been dominant in the fields of financial intermediation and commercial services.

The countries of the region have widely differing endowments of natural and human resources, although jointly they constitute a major economic

Table 2

Debt — Service Ratio of Asian Countries
(per cent of exports)

	1981	*1987*
Newly Industrialising Countries		
Hong Kong	...	...
Korea, Republic of	14.8	27.5
Singapore	1.4	2.4
Taipei, China	...	3.2
Southeast Asia		
Indonesia	12.9	33.3
Lao People's Democratic Republic	...	14.9
Malaysia	6.8	20.0
Philippines	17.4	25.2
Thailand	14.4	20.6
Vietnam, Socialist Republic of	...	48.8
South Asia		
Bangladesh	7.7	16.5
Burma	23.7	59.1
India	8.1	21.6
Nepal	1.6	9.7
Pakistan	9.9	17.8
Sri Lanka	6.0	16.8
China, People's Republic of	6.8	13.2
South Pacific		
Fiji	4.6	12.1
Papua New Guinea	15.8	37.4

Source: Asian Development Outlook, 1989.

force. They have large commercial deposits of hydro carbon and coal, and minerals such as copper, gold, nickel, tin. They have also a plentiful supply of agricultural, forestry and fishery products. The region supplies more than 50 per cent of world exports of jute, copra, coconut oil, palm oil, rubber, tobacco, tea, canned pineapple, rice, non-coniferous wood products and spices. The region has also developed significant comparative advantage with respect to several labour intensive and/or technologically standardised manufactured goods such as textiles and apparel, footwear, toys and consumer electrical products and equipment.

These diversities in the stages of development could mean that the different countries of the region might perceive the implications of various issues of negotiations in different ways. Alternatively, the initial conditions would imply that among these countries there is considerable potential for complementarities, and that these could be harnessed for mutual benefit. It would be in their joint interest, for example, if they could prepare a unified approach, which would give them much needed bargaining strength vis-à-vis the developed world.

Negotiating Issues in the 1990s

The issues that will persist in the 1990s fall into three categories:

(i) follow-through on issues on which negotiations are in progress;

(ii) issues that were identified in the 1980s, but on which no effective negotiations have been launched;

(iii) new issues likely to emerge as a result of structural changes in the world economy.

Some of the negotiations will be within the framework of the North-South dialogue, but it is sad to note that North-South negotiations have often been put on the sidelines as North-North negotiations have taken much more explicit shape in recent years. The necessity of countervailing South-South negotiations is not equally recognised.

It is, therefore, worth stressing that negoitations aimed at bringing about changes in the world economic system should include *all* possible North-North, North-South, and also South-South dimensions explicitly, in a coordinated way, if frustrations due to lack of coordination and integration in the different segments is to be avoided. It has also become clear that the socialist bloc must be brought into the negotiations as they attempt to integrate themselves in the world economy.

In the first category of issues, we include essentially those which have been actively considered in the Uruguay Round. Of the Uruguay Round's 14 negotiating groups dealing with different issues, the following deserve special mention in view of their far-reaching implications for the developing countries of Asia:

(i) Special and differential treatment for developing country exports.

(ii) Balance of payments provisions included in the Article XVIII B of the GATT.

(iii) Trade in agricultural and tropical products.

(iv) Trade in services, intellectual property rights, investment measures and other newly important issues.

(v) Safeguards and unilateral actions distorting the patterns of comparative advantage.

(vi) The problem of commodities, primary products and the distribution of benefits from trade.

Table 3	**Developing ESCAP region. Annual average net foreign direct investment flows and their distribution within the region, 1975-1986** (Millions of United States dollars: percentage)

	Average 1975-1980		*Average 1981-1985*		*Annual Flows*		
	Amount	*%*	*Amount*	*%*	*1984*	*1985*	*1986*
Newly industrialising economies	895	45	1,997	41	1,879	1,328	...
Hong Kong	241	12	562	12	682	-216	779
Republic of Korea	61	3	116	2	112	230	428
Singapore	502	25	1,130	23	884	974	673
Taiwan Province of China	91	5	189	4	201	340	...
ASEAN[a] and China	973	48	2,447	51	2,694	2,775	...
China	...	...	796	16	1,258	1,659	...
Indonesia	290	14	229	5	226	272	259
Malaysia	524	26	1,083	22	797	694	530
Philippines	74	4	58	1	9	-11	127
Thailand	85	4	280	6	404	161	264
South Asian countries	89	4	162	3	51	235	...
India	41	2	40	1	-37	70	89
Pakistan	33	2	79	2	55	134	110
Sri Lanka	15	1	43	1	33	31	30
Pacific island countries	15	1	140	3	149	125	...
Fiji	10	1	32	1	23	34	34
Papua New Guinea	...	...	102	2	116	85	100
Solomon Islands	5	—	1	—	2	1	...
Vanuatu	...	...	5[b]	—	8	5	2
Other regional economies	36	2	70	1	—	32	...
Total	2,007	100	4,817	100	4,773	4,495	...

Sources: United Nations, Transnational Corporations in World Development — Trends and Prospects, annex Table A.1, pp. 506, 507: UNCTAD, Handbook of International Trade and Development Statistics — 1987 Supplement (United Nations publication. Sales No. E.E.87.11.D.10): and OECD, Geographical Distribution of Financial Flows to Developing Countries 1982/1985 [Paris, 1987].

[a] Excluding Brunei, Daiussalam and Singapore.

[b] Average of 1982-1986 flows.

Priorities will vary from country to country within this list. Even though the new round of trade negotiations is supposed to be completed by 1991, follow-up of the agreed new framework is bound to generate new issues in turn. It is likely that, as before, bilateral arrangements, designed to safeguard individual interests, will be introduced as countries find themselves adversely affected by the multilateral GATT rules.

The second group of issues includes:

(i) Exchange rate stability.

(ii) The problem of reducing the debt burden and avoiding the debt trap.

(iii) Codes of Conduct for multinationals and technology transfer.

(iv) The need for orderliness in the intellectual capital market.

(v) Resource transfers for development and the need to increase concessional finance.

Many of these issues have been recognised as urgent, but little action has followed. The problem of exchange rate fluctuations, for example, has been neglected. The negotiation of Codes of Conduct for multinationals and technology transfer has been sidetracked under pressure from vested interests. The problems of resource transfer, increase of SDRs, policy prescriptions under policy-based lending, etc., have been intensively debated but no consensus safeguarding the interests of all the parties has emerged. It is possible, nevertheless, that during the 1990s the gravity of these problems will increase so much that the various parties will have recourse to negotiation sooner or later.

The world economy is undergoing rapid structural change. While the nature and the directions of these changes are uncertain, it is not difficult to identify some of the new challenges that may emerge in the 1990s and will undoubtedly have ramifications for developing countries' trade:

(i) the emergence of a single European market;

(ii) increasing integration of USSR and other socialist countries of Eastern Europe and China with the rest of the world;

(iii) consolidation of new high technologies in various fields, in which developing countries have acquired comparative advantage in recent years, notably bio-technology and information technology.

Europe is likely to emerge as an even stronger economic power in 1992 and thereafter by improving productivity and technological upgrading. This will affect the import-export patterns of the EC with both developed and developing countries. In particular, the NICs, India and others who have achieved capabilities for exporting manufactured goods, including engineering goods, may have to seek special terms of market access against intensified competition from the EC. New avenues for technology transfer, joint ventures, concessional aid, etc., will have to be identified and negotiated.

Policy Options for Asia

The issues of negotiation identified in the previous section are of universal concern. It may be useful to examine some of the implications of the various problems for different countries in Asia, and to identify a possible approach to the problem of negotiations.

Attacks on the provision for special and differential treatment for developing country exports and on the balance of payments position under Article XVIII B should be viewed with special concern by the Asian countries. It has been well documented in the literature that NICs can bring about structural transformation in their economies on the basis of the differential market access provided to their manufactured goods under the GSP. But structural transformation is a gradual and continuing process. It is unreasonable to remove some countries from the scheme simply because they have been able to produce some export products on a competitive basis. The graduation principle of country-commodity specifically is already incorporated in the scheme insofar as GSP concessions are withdrawn for exports beyond a certain limit. The developed countries should bring about structural changes in their economies through appropriate adjustment measures, instead of penalising those developing countries which have gained competitive strength. Global restructuring of production between the North and the South should be an integral and containing part of the process of optimal transformation in the world economy. The volatility in exchange rates has increased uncertainties and has aggravated payments imbalances, so the provisions of Article XVIII B need to continue to be available to developing countries.

Prospective liberalisation in agricultural goods following the gradual elimination of subsidies in the developed world is a welcome change in the coming years. However, the transition will not be unproblematic. In the short-run, the developing countries' agricultural exports will not respond immediately to new export opportunities. Quantitative studies suggest that in the short-run withdrawal of subsidies might lead to increases in international prices. This would adversely affect the balance of payments position of developing countries which are net importers of food grains. In the Asian region most countries fall into this category (Thailand is an exception). There would therefore be a need for short-term balance of payments support. Further, to improve trade opportunities in the medium- and long-term, the countries of the region will have to improve their technical capabilities and attempt to make scale economies. They would also need to coordinate their production and marketing strategies and pool resources for joint research and adoption of new technologies. This suggests many new issues for South-South negotiations within the region.

Negotiations on tropical products continue to remain difficult, while the recent collapse of some commodity agreements poses new problems. For instance, the termination of the quota system in the international coffee agreement in September 1989 requires that the major coffee producers of the region, namely India and Indonesia, should negotiate and coordinate their strategies of production, market intervention and pricing. Unstable commodity prices and the erosion of purchasing power afflict many countries of the region, particularly Indonesia, Malaysia, Sri Lanka and Nepal, who depend significantly on primary product exports. Intense competition within the region has often damaged the interests of all concerned: India, Bangladesh, Thailand and Nepal in jute, India and Sri Lanka in tea, Thailand, Burma and Vietnam in rice. If these competing countries could foster coordination of their strategies for production and marketing this would be to their great advantage. But it would also bring closer a precedent on regional level initiatives which might bode ill for multilateralism.

The Second Window of the Common Fund has been launched to provide assistance to the developing countries for the processing of their primary products, but many aspects remain to be negotiated. Obviously, the primary producers would like to generate more value added through the establishment of domestic processing facilities. There is scope for the countries of the region to negotiate among themselves the choice of the product-mix, marketing strategies, setting up of joint ventures, etc.

International agreements for tea, jute, tin, rubber, coconut, etc., have tended to fail to serve the purposes for which they were intended. The integrated programme of commodities approach initiated by UNCTAD has not reached successful culmination, and the basic principles need to be fostered by the countries of the region for their mutual benefit. UNCTAD would do well if negotiations were promoted even on a regional or sub-regional basis.

In regard to the new issues of trade in services, trade-related intellectual property rights and trade-related investment measures, the countries of the region have varied in their positions, no doubt because of the diversity in the degree of entrenchment of the multinationals. Developing countries which see a correlation between the presence of FDIs in the service sector and growth rates seem to feel that a more open regime in services and technology transfer would serve their long-term interests by encouraging FDI. However, some have strongly opposed the proposal of a liberal trade regime for services and technology. Assuming that the negotiations in the Uruguay Round produce more liberal trade regimes in these areas, the problem of safeguarding domestic service enterprises and indigenous initiatives in R & D and innovation remains common to all countries, whether or not they currently have FDI. This is likely to remain a major stimulus to bilateral negotiations, thereby encouraging further erosion of the multilateral framework of the GATT.

In recent years, tendencies to initiate unilateral actions by stronger trade partners are on the increase. The adoption of US Trade Laws Super 301 and 301 and associated unilateral actions are cases in point. These actions are totally contrary to the GATT principles and need to be contested. The need for establishing fairness in trade relations continues in the 1990s and developing countries in the region should adopt a concerted, unified approach on the issue.

In regard to the second category of issues, the countries of the region will have to adopt new strategies for fostering negotiations. Stability of the exchange rate and stability in the capital market are essential for optimum utilisation of the scarce capital and foreign exchange resources of the countries of the region. There could be regional level conferences on money and finance to identify a feasible alternative system to replace the current disorder. Pending the emergence of an alternative global monetary system, the developing countries in the region will have to negotiate among themselves new mechanisms for averting the adverse effects of fluctuating exchange rates and payments problems. Some such approach could be to strengthen the payments and the clearance arrangements and to encourage currency swaps and barter trade arrangements. The advantages of the existing Asian Clearing Union (ACU) will have to be fully exploited by expanding its coverage and linking it with the swap arrangements in the ASEAN, and also possibly through linkages with similar arrangements in Africa and Latin America. The role of the unit of account in these arrangements will have to be strengthened and the advisability of setting up reserve pools and harmonising interest rates and settlement periods will have to be examined. A computerised network among the banking and financial institutions would serve a useful purpose in streamlining payments and clearance procedures.

The long term solution to the debt problem — whether in Asia or in Latin America — lies in enforcing structural changes in production and trade. While immediate relief in the form of rescheduling and settlements in the secondary market for debt are welcome, the developing countries in the region will have to bring pressure on the developed countries to vacate the industries in which they have lost their comparative advantage. Textiles, leather goods, auto accessories, electronic components, etc., are some of the areas which might be phased out from the developed countries so that countries in this region could effectively step in.

In regard to the emergence of new technologies, such as bio-technology, the countries of the region should pool their resources and capabilities, for example, by setting up germplasm and gene banks, to take full advantage of the potential of the new technological developments. Negotiations within the South are essential to improve their bargaining positions.

During the 1990s, Third World multinationals are likely to become more prominent than before. The NICs would like to set up joint ventures in the other developing countries of the region. Specific codes of conduct appropriate to Third World multinationals may need to be worked out.

Among the new issues that are likely to emerge as a result of structural changes in the world economy, the problem of Europe 1992 is a significant one for the region. As stated earlier, increased structural strength for the industries within the EC would pose market access problems to the exports of the developing countries of this region. As it is, the EC's share in the exports of many developing countries in the region has been falling in recent years. This trend might be exacerbated by the new developments in Europe. The countries of the region may need urgently to coordinate their production and marketing strategies, and negotiate market access with Europe.

Perestroika and Glasnost in the USSR give scope for many speculations. Would increasing trade and investment linkages between the USSR and the West dampen its historical ties with the developing world? Would the convertibility of the rouble — a much cherished goal of the USSR — impose new burdens on the countries which have borrowed from the USSR, such as India, and which have special domestic currency arrangements for payments? Would the USSR's emergence as a major borrower from the IMF, World Bank and intellectual capital markets, further aggravate the resource problems of the developing world? These are some examples of the likely issues of debate in the 1990s.

Japan's role in the development process of the region ought to assume a higher profile than in the past. Unfortunately, various schemes for recycling the Japanese surplus have remained ideas only. Even though Japan's contribution to ODA and FDI has been increasing, the increase is not commensurate with the massive surplus that Japan has accumulated, and the increased responsibility that is thrust on it to play a leading role in the world economic system. A comprehensive plan of development for the Asian region might be prepared under UNCTAD auspices, and a framework laid down for the use of Japanese surplus in the development of the region.

Concluding Observations

To sum up, is seems likely that the sub-global negotiations — North-South, South-South, North-North, Northeast-South and Northeast-North — will be much more intense in the 1990s than during the 1980s. The Uruguay Round of trade negotiations will doubtless settle some aspects of the trading system, but probably not so solidly and comprehensively as to pre-empt pressure for later bilateral arrangements. The developing countries of the Asian region will have to adopt coordinated strategies of action to safeguard their interests in the fields of trade, production and technology, and in general overall development. New initiatives are required to deal with the problems of exchange rate fluctuations, debt problems and resource transfer. More explicit negotiations among the countries of the South will have to be encouraged for evolving new paradigms of development that are relevant to their resource endowments and aspirations. A development plan for the Asian region should be prepared, and the strategic role of the Japanese surplus suitably identified in it. UNCTAD could continue to be a much cherished institution in the 1990s if — as in the 1960s and 1970s — it again provided visionary and dynamic leadership in these respects. But in turn, it is the responsibility of the countries of the world to strengthen the hand of UNCTAD to enable it to play its role.